

2013 ECONOMY DAYS

“Facing the crisis in Europe and in Luxembourg: state of play and opportunities”

On 6 and 7 February 2013, the Economy Days brought together around 500 participants at the Luxembourg Chamber of Commerce. The 7th edition of the event saw entrepreneurs, politicians and economists discuss the crisis in Luxembourg, take stock of the situation and look at opportunities. This year, all proceeds from the registration fees went to Jonk Entrepreneuren, a non-profit association of young Luxembourg-based entrepreneurs.

The first half-day focused on analysing the economic climate in Luxembourg. The speakers were Luxembourg-based business leaders who shared with participants how they viewed the state of the Luxembourg economy, five years into the crisis. They analysed the current situation, identified challenges and threats and made recommendations for actions to be taken.

During the second half-day, the state of affairs in Luxembourg was put into perspective through a debate on the European debt crisis held by renowned economists Professor Hans-Werner Sinn and Professor Christian de Boissieu.

The economic crisis in Luxembourg: challenges and opportunities – the point of view of some business leaders

In Luxembourg, the economic crisis, which resulted in zero growth in the past five years (GDP adjusted for inflation), can partly be explained by the 2008 financial crisis. However, the situation was compounded by several factors: the digital revolution happened, 12 new countries joined the European Union (10 in 2004 and 2 in 2007) – which had a major economic impact – and markets became more globalised (for instance, China strengthened its position). Those businesses who were able to adapt rapidly and who developed their operations in emerging countries maintained or even strengthened their positioning. Things are going to continue to change rapidly and Luxembourg must react accordingly in order to be able to meet those challenges.

According to Chairman of the Luxembourg Chamber of Commerce Pierre Gramegna, Luxembourg should continue to adopt an outward-looking attitude in order to attract both people and foreign investors. Luxembourg is a “laboratory for European integration” which relies on a high proportion of foreigners who live in the country and on its 157,000 cross-border workers (who make up a quarter of all EU cross-border workers). To continue to thrive and develop, the country must be able to maintain and promote integration. A key issue Luxembourg will need to solve is the democratic deficit, as a majority of foreign residents do not have the right to vote in the country.

Luxembourg needs to remain attractive to foreign investors and it can do so by enhancing its tax and legal framework and by making sure it is stable and predictable.

A variety of other issues and challenges were also discussed: how to improve productivity, provide economic governance, improve energy efficiency and increase the use of renewable energy, how to improve financial independence by anticipating the decrease in revenues (from e-commerce sources) and increased expenditure through innovative solutions and not only by raising taxes. These challenges should not obscure the housing issue (housing is too expensive in Luxembourg) or the fact that a suitable transport infrastructure is needed to make the workers' commute easier,

The focus was also on education and training. Speakers agreed on the need for training schemes to meet the requirements of businesses. For instance, training courses connected with key areas of the

Luxembourg economy could be offered. Improving the balance between private sector and public sector pay was also addressed.

Minister of Small and Medium-Sized Businesses and Tourism Françoise Hetto-Gaasch stated that improving apprentice schemes for young people was key to ensuring the creation of SMEs in the years to come.

Ms Hetto-Gaasch also stressed how important access to funding and microcredit was. The creation of SMEs must be encouraged by reducing regulatory burdens.

The crisis in Luxembourg and in the Eurozone: a comparative analysis of the Eurozone crisis

An equally high number of participants attended the second half-day and were welcomed by PwC Luxembourg Managing Partner Didier Mouget. Mr Mouget conveyed a positive message even though Luxembourg, which used to fare better than most Eurozone economies, is now in the middle of the pack as far as prospects for economic growth are concerned. Luxembourg is facing major challenges such as ensuring the sustainability of its public finances, regenerating its industry and transforming its job market. There are reasons to hope however: financial stability is maintained and the country is still attractive, particularly to emerging countries which are driving global growth. Finally, growth clusters in the financial services industry, in information and communications technology (ICT) and in the logistics sector can give the country an edge to help set it apart from competing economies.

At a time where one must ask oneself the right questions to prepare for the future, Michel Wurth presented the “2030.LU-Ambition pour le futur” initiative, a project aimed at maintaining or enhancing the country's attractiveness, competitiveness and efficiency. An assessment has already identified five key areas: quality of life, diversity, solidarity, financial independence and productivity. This assessment will be supplemented by a wide consultation and working groups through an exchange portal to be launched in March (www.2030.lu) and will end with the release of a manifesto in autumn 2013.

One of the highlights of the second half-day was the presentation and debate by two economists on the Eurozone crisis.

In an exciting and thought-provoking speech, Professor Sinn, the president of Germany's famous Ifo institute, gave his perspective on how the Eurozone crisis started. He then gave his suggestions on how to deal with it, which are in stark contrast to the current handling of the crisis. According to Professor Sinn, the crisis was triggered by an excessive amount of credit in southern Eurozone countries. This excessive amount of credit, which Professor Sinn calls a bubble, then resulted in high inflation in countries such as Portugal, Greece and Spain. As a result, those countries currently suffer from a crucial lack of competitiveness compared with countries such as Germany for instance. Following the sub-prime crisis in the United States, private investors refused to keep on financing the debt of those Eurozone countries classed as high risk. Consequently, those countries were then unable to finance their debt. This was the beginning of the Eurozone crisis. In Professor Sinn's opinion, the European Central Bank (ECB) discarded financing from private sources and was increasingly involved, going even so far as buying the debt securities of the countries affected by the crisis. Professor Sinn believes the ECB should not have been involved, does not approve of the recent EU monetary stability system and pooling of debt in the Eurozone. According to Professor Sinn, the ECB overstepped its authority by reallocating the savings – and therefore the wealth – of northern countries (Luxembourg, Germany, Finland) to southern countries. To put an end to the crisis and enable southern countries to recover, the only solution would be to have countries such as Greece and Portugal exit the Eurozone; the Eurozone countries should help them devalue and boost their competitiveness, only to welcome them back to the Eurozone at a later stage.

Christian de Boissieu, a professor at Panthéon-Sorbonne, qualified his colleague's uncompromising stance and opened by saying that the euro itself was not experiencing a crisis. The European currency did not depreciate, it is still the second international reserve currency and Asia still holds euro-denominated reserves. Even though Professor de Boissieu conceded that the Eurozone was not an optimum currency area and that real convergence problems remained between Eurozone members, he believed that the focus should be on making labour more mobile in order to increase the Eurozone's flexibility. Also, in his opinion, the Maastricht treaty should be reformed, in order to monitor both government debt levels and private debt. Finally, according to Professor de Boissieu, having Greece or Portugal exit the Eurozone would not be a solution, because, in the wake of their exit, those countries would be faced with other problems which would be just as serious, i.e. the financing of their euro-denominated debt would weigh heavily on their economies and result in a vicious circle of devaluation/inflation, which has often been experienced by countries whose currency was devalued.

The recovery in Europe will only be sustainable if those countries are able to achieve sustainable growth. In a highly competitive global environment, the European Union must keep an outward-looking attitude and watch its industrial production, which is less competitive due to more stringent social and environmental requirements.

In his closing speech, Minister of Economy and Foreign Trade Étienne Schneider said that 2012 had been a year in which the Luxembourg economy had restructured itself and Mr Schneider stated that a recovery could be expected by 2014 if economic reform was successful. To facilitate economic recovery, Luxembourg is counting on the development of new growth sectors including ICT, biotechnology research, logistics and infrastructure. In line with the entrepreneurial spirit shown by the various speakers, Mr Schneider concluded his address with this quotation: "The country must change if it wants to remain what it is and, believe me, it is going to change."

On behalf of the organisers, we would like to extend our gratitude to our distinguished speakers for their valuable contributions. We would also like to thank all our guests for their attendance, and we look forward to seeing you again at next year's edition of the Economy Days, which we hope will be set against a more auspicious economic background.

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In the presence of:

Françoise Hetto-Gaasch, Minister of Small and Medium-Sized Companies and Tourism

Étienne Schneider, Minister of Economy and Foreign Trade

Jeannot Krecké, Former Minister of Economy and Foreign Trade

Speakers:

Charles-Louis Ackermann

Chairman, Accumalux Group

Serge Allegrezza

Head of Statec (Luxembourg's statistics office) and of the Observatoire de la compétitivité (Centre for trends in competitiveness), Ministry of Economy and Foreign Trade

Christian de Boissieu

Professor at Panthéon-Sorbonne (Paris I)

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